JT Group
2019 Results & 2020 Forecast

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*Please be reminded that the figures shown on these slides may differ from those shown in the financial statements as they are intended to facilitate the reader's understanding of individual businesses.
*For details of each term, please refer to annotations on slide 14 and 15.

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

(1) increase in awareness of health concerns related to smoking;
(2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
(3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
(4) our ability to further diversify our business beyond the traditional tobacco industry;
(5) our ability to successfully expand internationally and make investments outside Japan;
(6) competition and changing consumer preferences;
(7) our ability to manage impacts derived from business diversification or business expansion;
(8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
(9) fluctuations in foreign exchange rates and the costs of raw materials; and
(10) catastrophes, including natural disasters.

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Consolidated Result

2019 Financial results

Adjusted Operating Profit (AOP) at constant FX: +0.9% vs. PY
- Growth of total tobacco (Domestic + International) business exceeded the decline in the Pharmaceutical business

Adjusted Operating Profit
- Decreased due to unfavorable currency movements

Operating Profit and Profit
（+）One-time compensation gain related to the termination of license agreements for anti-HIV drugs in the Pharmaceutical business
（－）Decline in adjusted operating profit
（－）Increase in amortization related to acquisitions
（－）Restructuring costs in the International tobacco business
（－）Decline in proceeds from sales of real estate assets
（－）Higher financing costs

FCF
- One-time gains in addition to the businesses' stable cash generation ability
- Significant improvement due to non-recurrence of the 2018 cash-out related to acquisitions

(JPY BN)

	2019 Jan-Dec	vs. PY	vs. Q3 Forecast
Reported			
Revenue	2,175.6	-1.8%	+5.6
AOP	515.9	-13.4%	-2.1
Operating Profit	502.4	-11.1%	-2.6
Profit	348.2	-9.7%	+8.2
FCF	404.2	+JPY298.6 BN	+34.2

Key factors of change from Q3 forecast
AOP:
（－）Impairment of capsule manufacturing machines for low-temperature heating products in the Japanese domestic tobacco business
（＋）Better-than-expected sales volume in the International tobacco business
（＋）One-time gain from out-licensing and cost decline in the Pharmaceutical business
Profit:
（＋）Effective tax rate was below Q3 forecast

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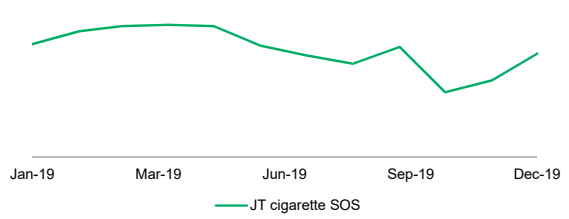
Sales volume performance

Expansion of RRP more than offset by cigarette share losses due to intensified competition in value segment, leading to total share decline vs. PY

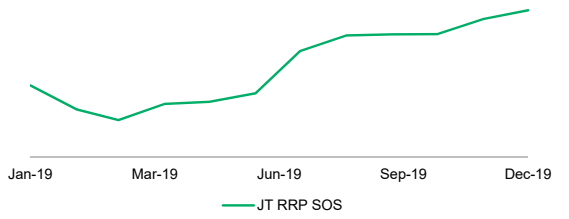
Cigarette

- JT cigarette sales volume: 75.5 billion sticks (-7.9% vs. PY)
  - Cigarette industry contraction (natural decline, expansion of RRP market and impact of price revision)
  - Share decrease
- JT cigarette category share: 60.4% (-1.0ppt vs. PY)
  - Impacted by intensified competition in value segment
    - ➢ Recently capturing downtrading with Camel Little Cigars launched in December



RRP

- JT RRP sales volume: 3.3 billion stick equivalents (+0.5 billion stick equivalents vs. PY)
  - Increase driven by nationwide launch of the new products
- JT RRP category share*: c.9% (c.+2ppt vs. PY)
  - Share increase following expansion of RRP portfolio
  - RRP market share in tobacco industry: c.23%



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*JT RRP category share: off-take basis

Financial performance

AOP variance factors

【Positive】

- Cigarette pricing gains
- RRP sales volume increase

【Negative】

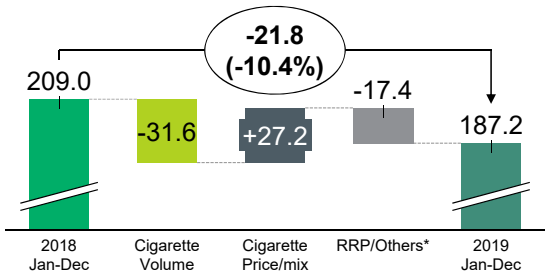
- Cigarette sales volume decrease
- RRP device sales volume decrease
- Impairment of capsule manufacturing machines for low-temperature heating products

(JPY BN)

	2019 Jan-Dec	vs. PY
Core revenue	568.9	-2.3%
AOP	187.2	-10.4%

Adjusted Operating Profit

(JPY BN)



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*Include production cost, marketing investment and SG&A

Financial performance (reported)

AOP variance factors

- Strong price/mix and volume from acquisitions more than offset by costs and currency headwinds
  - Mainly due to weak IRR and RUB
  - In addition, USD weakened against JPY

(JPY BN)

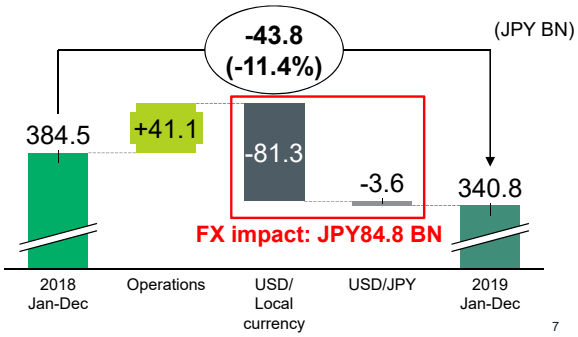
Reported	2019 Jan-Dec	vs. PY
Core revenue	1,253.0	+0.2%
AOP	340.8	-11.4%

Change in FX rate (vs. PY)

	2018 Jan-Dec	2019 Jan-Dec	Change
USD/EUR	0.85	0.89	-5.2%
USD/GBP	0.75	0.78	-4.4%
USD/IRR	61,649	104,046	-40.7%
USD/RUB	62.68	64.74	-3.2%
USD/TRY	4.82	5.67	-14.9%
USD/JPY	110.44	109.03	-1.3%

EUR/IRR is converted to USD/IRR in table by using cross rate

Adjusted Operating Profit (Reported)



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Financial performance

Pharmaceutical Business

- Decrease in revenue and AOP mainly due to the termination of license agreements for 6 anti-HIV drugs in Japan and lower overseas royalty income

(JPY BN)

	2019 Jan-Dec	vs. PY
Revenue	88.5	-25.5
AOP	15.9	-12.5

Processed Food Business

- Revenue growth of staple food products more than offset by the decline in sales of other products
- AOP increased driven by pricing gains, improvement in product mix and cost reductions

(JPY BN)

	2019 Jan-Dec	vs. PY
Revenue	158.6	-2.8
AOP	5.4	+1.3

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2020 Financial forecast

AOP at constant FX: Expect to be on par with PY
- Total tobacco business to grow by c.3%
  - Japanese domestic tobacco business:
    Decrease mainly due to cigarette sales volume decline
  - International tobacco business:
    Pricing continues to drive profit growth

Operating Profit
（+）Non-recurrence of restructuring costs in 2019 in the International tobacco business
（+）Proceeds from sale of headquarter building
（−）Decline in adjusted operating profit due to currency headwinds
（−）Non-recurrence of one-time gain in 2019 related to the termination of license agreements for anti-HIV drugs in the Pharmaceutical business

Profit
- Decrease due to decline in operating profit and effective tax rate increase

FCF
- Expect sustainable cash generation ability

(JPY BN)

	2020 Forecast	vs. PY
Reported		
Revenue	2,180.0	+0.2%
AOP	503.0	-2.5%
Operating Profit	471.0	-6.2%
Profit	305.0	-12.4%
FCF	370.0	-JPY34.2 BN

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Volume/Financial forecast

AOP variance factors

【Positive】
- Cigarette pricing gains
  - Reflects price hike in October 2020 based on certain assumptions
- RRP sales volume increase
- Non-recurrence of impairment in 2019 related to capsule manufacturing machines for low-temperature heating products

【Negative】
- Cigarette sales volume decrease
- RRP related revenue decline
- RRP sales promotion/R&D investment increase
  - Top-line investment aimed at maximizing volume
    - ➢ Price setting of refills in October 2019
  - Expansion of refill line-up
  - Upgrade of devices

(JPY BN)

	2020 Forecast	vs. PY
Core revenue	540.0	-5.1%
AOP	170.0	-9.2%

Volume Assumption

- Factors of industry volume decline:
  Natural decline, impact of price revision, effect of regulation, etc.

	Industry volume	JT sales volume
Total tobacco	a decline of c.3.5%	-
Cigarette	a decline of over 5%	a decline of c.6%
RRP	an increase of c.1.5% (RRP market size: c.25%)	over 3.5 BN sticks

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Financial forecast (reported)

AOP variance factors

- Solid price/mix resulting in reported AOP growth
- Currency headwinds to continue
  - IRR and TRY depreciation partially offset by improving trends, notably RUB
  - USD against JPY is to weaken

(JPY BN)

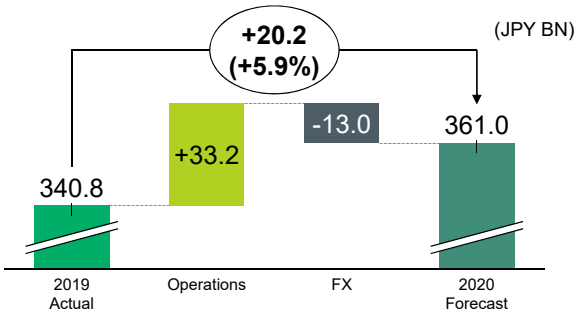
Reported	2020 Forecast	vs. PY
Core revenue	1,300.0	+3.7%
AOP	361.0	+5.9%

Change in FX rate (vs. PY)

	2019 Actual	2020 Forecast	Change
USD/EUR	0.89	0.89	+0.4%
USD/GBP	0.78	0.78	+0.5%
USD/IRR	104,046	130,000	-20.0%
USD/RUB	64.74	63.00	+2.8%
USD/TRY	5.67	6.20	-8.6%
USD/JPY	109.03	108.00	-0.9%

EUR/IRR is converted to USD/IRR in table by using cross rate

Adjusted Operating Profit (Reported)



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Financial forecast

Pharmaceutical Business

- Decrease in revenue and AOP due to lower overseas royalty income and drug price revision impacting Torii Pharmaceutical

(JPY BN)

	2020 Forecast	vs. PY
Revenue	76.0	-12.5
AOP	10.0	-5.9

Processed Food Business

- Revenue to increase along with higher sales of focused product categories
- AOP will decrease as solid business momentum is more than offset by increasing logistic costs and manufacturing optimization expenses to be skewed in this year

(JPY BN)

	2020 Forecast	vs. PY
Revenue	160.0	+1.4
AOP	5.0	-0.4

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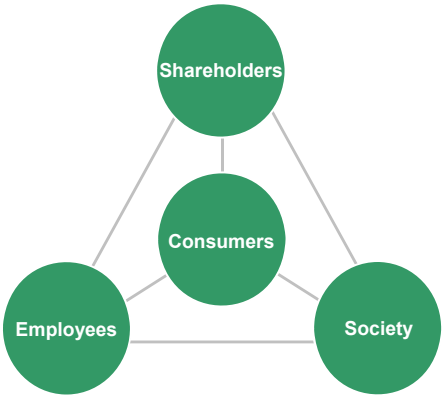
Closing remarks



2019 Results:

- AOP at constant FX increased as growth of total tobacco business exceeded the decline in Pharmaceutical business
- Profit decreased mainly due to currency headwinds

2020 Forecast:

- Aiming for stable AOP at constant FX year-on-year, while continuing high level of investment in order to strengthen foundation towards mid- to long-term growth

Shareholder Return:

- Dividend per share (estimate)
  - 2019: JPY154
  - 2020: JPY154

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<Definitions>

Adjusted operating profit (AOP):	Adjusted operating profit = operating profit + amortization cost of acquired intangibles arising from business acquisitions + adjusted items (income and costs)* * Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
Consolidated adjusted operating profit at constant FX:	For International tobacco business, the same foreign exchange rates between local currencies vs. USD and JPY vs. USD as same period in previous fiscal year are applied
Profit:	Profit attributable to owners of the parent company
FCF:	FCF is sum of cash flows from operating activities and investing activities, but excludes the following items: • From operating CF: depreciation from lease transactions, interest received, dividends received, interest paid and income taxes related to these items excluding lease transactions • From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes
Reduced-Risk Products (RRP):	Products with potential to reduce the risks associated with smoking
Core revenue: (International tobacco business)	Includes revenue from waterpipe tobacco and RRP, but excludes revenues from distribution, contract manufacturing and other peripheral businesses

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<Definitions>

Industry volume: (Japanese domestic tobacco business)	Industry volume in Japan market by number of sticks based on the internal estimate. This includes cigarettes, little cigars, RRP and others
Cigarettes: (Japanese domestic tobacco business)	Ready made cigarettes
Cigarette industry volume: (Japanese domestic tobacco business)	Industry volume of ready-made-cigarette in Japan market by number of sticks based on the internal estimate. This includes little cigars but excludes RRP
Cigarette sales volume: (Japanese domestic tobacco business)	JT's cigarette sales volume excluding the volume of Domestic duty free and the China businesses. This includes little cigars but excludes RRP
RRP sales volume: (Japanese domestic tobacco business)	JT's RRP sales volume excluding the volume of Domestic duty free business. One pack of consumables is equivalent to 20 sticks of combustible cigarette. This also excludes RRP devices, RRP related accessories, etc.
Little cigars:	Products rolled in tobacco-based paper with the similar format to cigarette and classified as "cigars" under the Tobacco Business Act in Japan
Core revenue: (Japanese domestic tobacco business)	Excluding revenue from distribution of imported tobacco in the Japanese Domestic Tobacco Business, among others, but including revenue from domestic duty free and the China business, as well as RRP related revenue
RRP related revenue: (Japanese domestic tobacco business)	RRP related revenue, as a part of core revenue, represents the sale of RRP including principally the device and the related accessories

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